

Date 11/3/89

Supreme [REDACTED]

AUG 21 1989

Employer Identification Number: [REDACTED]
Key District: [REDACTED]

Dear Applicant:

We have considered your application for recognition of exemption from federal income tax as an organization described in section 501(c)(6) of the Internal Revenue Code. For the reasons stated below, we conclude that you do not qualify for tax exemption under that section. Your protest rights are also explained below.

You were incorporated on [REDACTED], in the State of [REDACTED]. Your restated articles of incorporation provide that you are organized and shall be operated as a business league described in section 501(c)(6) of the Internal Revenue Code for the purpose of promoting the common business interests of its members and of the chiropractic profession generally. Specifically, your articles state that you were created for the principal purpose of developing, promoting, and operating programs that will advance the public's understanding of chiropractic care as an important part of health care generally and to increase the public's access to high quality health care, including the public's access to high quality chiropractic care while preserving and expanding the practices of both members and chiropractors generally.

In your Attachment to Form 1024, Application for Recognition of Exemption, you state that the initial focus of your activities has been to sponsor programs that would enable chiropractors to obtain reimbursement for their professional services from third-party payors, such as health insurers and HMOs. You state that due to the structural aspect of the chiropractic profession, the lack of state law mandating inclusion of chiropractors in HMOs, the lack of professional peer review of chiropractors, and the dynamics of the medical profession in general, chiropractors have found it difficult, if not impossible, to participate in, and receive payment for their services from, HMOs, PPOs, and other third-party payment programs.

"This ruling is applicable to the taxpayer named herein. It must not be relied on, used, or cited as a precedent by Internal Revenue Service personnel in the disposition of other cases."

In your letter of [REDACTED], you have broken down your activities to the following four major divisions: (1) Program Administration; (2) Peer Review and Related Administrative Activities; (3) Solicitation of Third-Party Payment Programs; and, (4) Workshops, Seminars and Related Activities. You have also estimated the amount of your time which is devoted to each of the above activities to be as follows: Program Administration - 40%, Peer Review and Related Administrative Activities - 35%, Solicitation of Third-Party Payment Programs - 20%, and, Workshops, Seminars and Related Activities - 5%.

The most recent Form 990, Return of Organization Exempt From Income Tax, you have submitted shows that for the year [REDACTED], you had total functional expenses of \$[REDACTED] of which \$[REDACTED] ([REDACTED]%) was expended for program services. Your Form 990 for [REDACTED] lists three program service expenses and the amounts expended on each as follows: Chiropractic Benefits Program Administration - \$[REDACTED]; Chiropractic Quality Review Services - \$[REDACTED]; and, HMO Participation - \$[REDACTED].

Section 501(c)(6) of the Code provides for the exemption of business leagues, chambers of commerce, and boards of trade not organized for profit and no part of the net earnings of which inures to the benefit of any private individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations defines a business league as an association of persons having some common business interest, the purpose of which is to promote such interest and not to engage in a regular business of a kind ordinarily carried on for profit. It is an organization of the same general class as a chamber of commerce or board of trade, and its activities should be directed to the improvement of business conditions in one or more lines of business as distinguished from the performance of particular services for individual members.

Rev. Rul. 74-553, 1974-2 C.B. 168, holds that a nonprofit organization formed by members of a State medical association to operate peer review boards for the primary purpose of establishing and maintaining standards for quality, quantity, and reasonableness of costs of medical services qualifies for exemption under section 501(c)(6) of the Code. The ruling states that while the organization works with insurance companies, it neither designs, sponsors, or operates prepaid health insurance programs, nor sets minimum standards which must be included in an insurance benefits package.

Rev. Rul. 56-65, 1956-1 C.B. 199, holds that a local organization whose principal activity consists of furnishing

particular information and specialized individual services to its individual members engaged in a particular industry, through publications and other means to effect economies in the operation of their individual businesses, is performing particular services for individual persons. Such organization, therefore, is not entitled to exemption from federal income tax under section 501(c)(6) of the Code as a business league even though it performs functions which are of benefit to the particular industry and the public generally.

Rev. Rul. 68-264, 1968-1 C.B. 264, holds that an activity that serves as a convenience or economy to members in the operation of their businesses is a particular service of the type proscribed by the regulations.

Your primary activities are the administration of the third-party payment programs and the utilization review and quality assurance services associated with the above programs. You provide a pool of available chiropractors to various HMOs, and PPOs, or other insurance vehicles for inclusion in their plans. You contract with these insurance groups on behalf of your members, maintain utilization data required to be kept by HMOs, advertise and promote the services of your participants, and represent your members in the establishment of fee schedules with the various health care vehicles. By acting as the program administrator, you will be providing your enrolled chiropractors with a more stable patient base, new patients, and both administrative and financial services. All of the above services which you perform are activities which would otherwise have to be carried on by or for your participating chiropractors. Like the organizations in Rev. Ruls. 56-65 and 68-264, both cited supra, your primary activity is providing particular information and specialized individual services to your participating chiropractors through the administration of the insurance programs and other services designed to effect economies in the operation of your members' individual practices.

You are distinguishable from the organization in Rev. Rul. 74-553, supra, in that whereas the organization in the revenue ruling, neither designs, sponsors, or operates prepaid health insurance programs, nor sets the minimum standards which must be included in an insurance benefits package, you perform these services as your primary activity. As such, you are providing particular services for individual persons within the meaning of section 1.501(c)(6)-1 of the regulations and may not be recognized as exempt under section 501(c)(6) of the Code.

Based on the foregoing, we hold that you do not qualify for exemption from federal income tax as an organization described

[REDACTED]

in section 501(c)(6) of the Code. Accordingly, you are required to file federal income tax returns.

You have the right to protest this ruling if you believe it is incorrect. To protest, you should submit a statement of your views, with a full explanation of your reasoning. This statement must be submitted within 30 days from today, in duplicate, and must be signed by one of your principal officers. When sending a protest or other correspondence with respect to this case, you will expedite its receipt by placing the following symbols on the envelope: [REDACTED]. These symbols do not refer to your case, but rather to its location.

You also have the right to a conference in this office after your protest statement is submitted. If you desire a conference, you must request it when you file your protest statement. If you are to be represented by someone who is not one of your principal officers, that person must file a proper power of attorney and otherwise qualify under our Conference and Practice Requirements.

If we do not hear from you within 30 days, this ruling will become final and copies will be forwarded to the key District Director, Chicago, Illinois, which is your key district for exempt organization matters. Thereafter, any questions about your federal income tax status should be addressed to your key District Director.

Sincerely yours,

Signature [REDACTED]

[REDACTED]
Chief, Exempt Organizations
Rulings Branch 1

cc: [REDACTED]